



RESEARCH REPORT

Catalog number	99-003
Date:	April 21, 1999
Subject:	Human Services Central Services Waiver
To:	Board of Supervisors
From:	Sandi Wilson, Deputy County Administrator Christopher Bradley, Budget Manager
Prepared By:	Patrick Van Zanen, Budget Consultant Al Merlo, Budget Analyst

ISSUE

Will Human Services be able to recover any County central services costs while fully meeting administrative cost obligations?

BACKGROUND

The Human Services Department is almost entirely funded through grants from the Federal Government except for a County general fund allocation of \$1 million dollars. That \$1 million does not fund any County employees except half of the director's salary. The remainder goes directly to community programs run by entities independent of the County. The grants from the Federal Government total almost \$24 million and constitute the department's entire budget. Included in that \$24 million are funds to pay the costs of administering the grant programs and paying County overhead costs attributable to the Human Services Department.

In previous years, some of the overhead costs attributable to the department, yet not fully covered by the grants, were waived by the County in order to continue providing services to the community. In effect, the County subsidized some the grant by covering some of the administrative costs. As a result, the uncollected central service costs built up a fund balance in the Human Services budget. The County again began to collect central service charges which, spent down the fund balance. There is now a shortfall in funding to cover the central service and other administrative overhead costs. Therefore, the County must now reevaluate administrative costs and attempt to maximize recovery from the grants.

The purpose of this report is to clearly identify the administrative overhead costs for the Human Services Department and determine a funding source for those costs. The following issues will be discussed:

1. What constitutes administrative costs for the Human Services Department?
2. How has the Department of Finance calculated the central service cost allocation (CSCA) charge for the Human Services Department?

Catalog number	99-003
Date:	April 21, 1999
Subject:	Human Services Central Services Waiver
Page:	2

3. How has the Human Services Department allocated its indirect administrative costs (aside from the CSCA) for the purpose of charging the grants?
4. How are the total administrative costs calculated by the Human Services Department for the purpose of charging the grants?
5. Do the grants fully cover all of the Human Services Administrative costs?

DISCUSSION

1. What constitutes administrative costs for the Human Services Department?

For the purpose of charging grants, three cost components are combined to determine administrative costs. These components combined are what the grantor (the Federal Government) calls indirect costs.

- **Direct Administrative Costs** – These are administrative costs that can be attributed directly to the program funded by the grant and support only that grant. These would include administrative staff that works only for a particular grant.
- **Indirect Administrative Costs** – These are administrative costs within the Human Services Department that support all the grants and can be attributed to the department as a whole. They include:
 - Human Resources
 - Finance
 - Technology
 - The Director's Office

Note that these are divisions within the Human Services Department and do not refer to the Maricopa County Human Resources Department, etc.

- **Central Service Cost Allocation Charges** – These are the County's administrative costs that are attributable to the Human Services Department. For example, a portion of the Office of Management and Budget's (OMB) costs are attributable to the Human Services Department because OMB works on issues related to that department.

2. How has the Department of Finance calculated the CSCA charge for the Human Services Department?

Catalog number	99-003
Date:	April 21, 1999
Subject:	Human Services Central Services Waiver
Page:	3

The Department of Finance has developed an allocation plan to charge County departments for the support provided to them by other County departments. Those support departments include Finance, Human Resources, OMB, the Board of Supervisors, Facilities Management, Equipment Services, and others. This is done through activity based costing, which is unique to each department. The Department of Finance measures the level of service provided to a department by a support department and then charges the department accordingly. The Department of Finance can then determine an indirect overhead rate for each department based on the support provided to that department by all the support departments.

In determining the CSCA charge for the Human Services Department, the Department of Finance applied the calculated indirect rate against the total dollar amount of all the grants that allow a charge for indirect costs. Some grants received by departments do not allow a charge for indirect costs. The Board of Supervisors is made aware of this when deciding whether to accept those grants so that it knows acceptance of the grant will require a general fund subsidy for indirect costs. For Human Services, that charge totals \$564,000. The table below displays the CSCA charge for each program (grant category). Note that, except for the general fund, each program consists of many grants.

PROGRAM	CSCA CHARGE (COUNTY INDIRECT)
GENERAL FUND	\$ 5,266
HEAD START	374,270
COMMUNITY SERVICES	17,574
WORKFORCE DEVELOPMENT	166,889
TOTAL	\$ 563,999

3. How has the Human Services Department allocated its own indirect administrative costs (not the CSCA charge) for the purpose of charging the grants?

The Human Services Department has its own indirect costs that it must allocate to the various grant programs. Human Services calls this a "cost pool." For example, the department has employees that manage the department's finances. These employees support all the grant programs and therefore, their costs should be charged to each grant based on the level of service they provide to each grant.

Human Services has developed its FY 1999-00 budget submission by allocating these indirect costs based on the salaries of the employees in each grant relative to the department's total salary budget. After testing different allocation methods, Human Services has determined that this method maximizes cost recovery from the

Catalog number	99-003
Date:	April 21, 1999
Subject:	Human Services Central Services Waiver
Page:	4

grants that allow an indirect charge. This method has yet to be approved by the grantor but the department expects that will happen as such a method is generally accepted. Below is a table indicating the departmental indirect costs allocated across the programs.

PROGRAM	COST POOL (DEPT. INDIRECT)
GENERAL FUND	\$ 12,485
HEAD START	887,350
COMMUNITY SERVICES	41,667
WORKFORCE DEVELOPMENT	395,675
TOTAL	\$ 1,337,177

4. How are the total administrative costs calculated by the Human Services Department for the purpose of charging the grants?

To determine the administrative overhead costs for each grant, Human Services adds the CSCA charge, the department's indirect administrative costs, and the department *direct* administrative costs. Again, the direct administrative costs are those costs that are attributed directly to a grant (discussed under issue #1). Below are the total indirect costs for each grant category.

PROGRAM	COST POOL (DEPT. INDIRECT)	CSCA CHARGE (COUNTY INDIRECT)	DEPARTMENTAL ADMIN. COSTS	TOTAL
GENERAL FUND	\$ 12,485	\$ 5,266	\$ 60,224	\$ 77,975
HEAD START	887,350	374,270	889,531	2,151,151
COMMUNITY SERVICES	41,667	17,574	288,000	347,241
WORKFORCE DEVELOPMENT	395,675	166,889	746,700	1,309,264
TOTAL	\$ 1,337,177	\$ 563,999	\$ 1,984,455	\$ 3,885,631

5. Do the grants fully cover all of the Human Services indirect administrative costs?

Not all grants allow for indirect administrative costs. However, within the same programs, grants that do allow indirect costs can often subsidize non-indirect paying grants. Therefore, Human Services is able to recover nearly all the department's indirect costs from the grants.

Catalog number	99-003
Date:	April 21, 1999
Subject:	Human Services Central Services Waiver
Page:	5

The Head Start program consists of one grant. This grant restricts total administrative costs (direct plus indirect) to 15% or less which does not cover all the administrative cost attributable to that program.

Within the Workforce Development program, one of the grants does not allow indirect cost recovery. The Board of Supervisors has accepted this grant with their knowledge that it does not allow for indirect cost recovery. See the following table for dollar amounts.

The table below indicates the total indirect costs for each program, the total indirect charges allowed in each program, and any associated variance.

PROGRAM	COST POOL (DEPT. INDIRECT)	CSCA CHARGE	DEPT. DIRECT COSTS	TOTAL INDIRECT	ALLOWABLE INDIRECT CHARGES	VARIANCE
GENERAL FUND	\$ 12,485	\$ 5,266	\$ 60,224	\$ 77,975	\$ 77,975	\$ -
HEAD START	887,350	374,270	889,531	2,151,151	1,475,706	\$ 675,445
COMMUNITY SERVICES	41,667	17,574	288,000	347,241	347,241	\$ -
WORKFORCE DEVELOPMENT	395,675	166,889	746,700	1,309,264	1,210,111	\$ 99,153
TOTAL	\$ 1,337,177	\$ 563,999	\$ 1,984,455	\$ 3,885,631	\$ 3,111,033	\$ 774,598

CONCLUSION

It is clear that the grants do not allow the Human Services Department to fully recover indirect costs. Even if a waiver of CSCA charges were given for the Head Start program, a shortfall would still exist. Direct and indirect departmental overhead costs are too high to fall within the rates allowed by the grant. This is not to suggest that the Human Services Department is operating with too much overhead, i.e., overstaffed. Such a determination would require further analysis which, the department is open to. Human Services believes it is operating as efficiently as possible and a staffing analysis would indicate so.

ALTERNATIVES

- First, the Board could eliminate grants that do not permit full indirect cost recovery. This would, in effect, eliminate the workforce development and the Head Start programs, because they do not provide enough reimbursement to fully fund indirect costs.
- Second, the Board of Supervisors could absorb a portion or the entire shortfall with a general fund subsidy. OMB is recommending in the FY 1999-00 budget to waive the CSCA charge of \$374,270 for the Head Start program. In addition, the

Catalog number	99-003
Date:	April 21, 1999
Subject:	Human Services Central Services Waiver
Page:	6

remaining CSCA charge could be waived. The following table indicates the resulting variance.

Note: These costs reflect the analysis for FY 1998-99. Costs will duly be adjusted for FY 1999-00.

PROGRAM	COST POOL (DEPT. INDIRECT)	CSCA CHARGE	PROGRAM DIRECT ADMIN.	TOTAL ADMIN. COSTS	ALLOWABLE ADMIN. CHARGES	VARIANCE
GENERAL FUND	\$ 12,485	\$ 5,266	\$ 60,224	\$ 77,975	\$ 77,975	\$ -
HEAD START	887,350	374,270	889,531	2,151,151	1,475,706	\$ 675,445
COMMUNITY SERVICES	41,667	17,574	288,000	347,241	347,241	-
WORKFORCE DEVELOPMENT	395,675	166,889	746,700	1,309,264	1,210,111	99,153
TOTAL	\$ 1,337,177	\$ 563,999	\$ 1,984,455	\$ 3,885,631	\$ 3,111,033	\$ 774,598
CSCA WAIVER FOR HEAD START						374,270
RESULTING VARIANCE						\$ 400,328
WAIVE REMAINING CSCA						189,729
FINAL VARIANCE						\$ 210,599

In this case, the Board of Supervisors would need to allocate an additional \$210,599 to cover the remaining variance.

- Third, the Board of Supervisors could consider seeking additional Head Start grant funding and allocate the necessary match with the caveat that economies of scale permit the new indirect dollars coming with the new grant to cover the new indirect costs *and* the existing shortfall. The cost of this solution to the County would be greater in absolute dollars yet service would increase. The Human Services Department would need to determine if those grants are available and if all indirect costs could be covered with no further allocation from the County other than the grant match.
- Finally, the above arguments support that Human Services will not be able to recover Central Services costs. However, Human Services is a non-mandated function, and the Board of Supervisors' policy direction is required for a Central Services Costs waiver.

RECOMMENDATION

OMB recommends that Central Service charges to Human Services be waived, and that the General Fund support part of Human Services Administrative costs for FY 1999-00. However, we further recommend that long-range solutions, including collaboration with other jurisdictions, resizing department administration costs and utilization of "economies of scale" by increasing funding be considered prior to recommending continued Central Service cost waivers in future years.